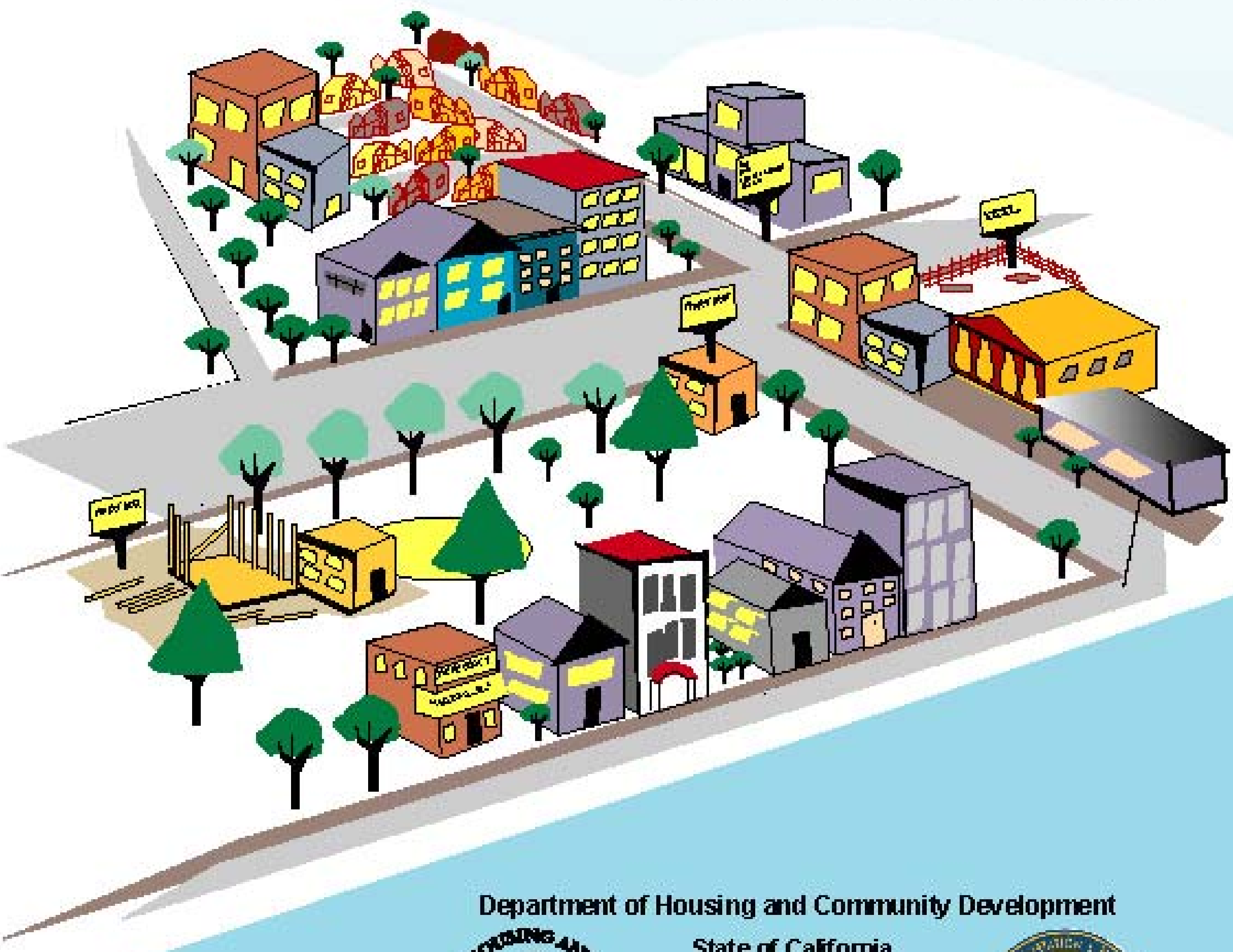
Redevelopment Housing Activities

Fiscal Year 2000-2001



Department of Housing and Community Development

State of California

Gray Davis, Governor

Maria Contreras-Sweet, Secretary, Business, Transportation and Housing

Julie Bornstein, Director, HCD

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To the Senate and Assembly of the Legislature of California:

I am pleased to present the Fiscal Year (FY) 2000/2001 report on the housing activities of local redevelopment agencies in California. This is the 17th annual report compiled by the Department of Housing and Community Development (HCD) pursuant to the requirements of Health and Safety Code Section 33080, et seq.

During FY 2000/2001, redevelopment agencies added $798 million to their Low and Moderate Income Housing Funds, and agencies spent approximately $695 million to build, rehabilitate, acquire, and subsidize housing for low- and moderate-income Californians. Local redevelopment agencies have continued to contribute significantly to meeting the statewide need for affordable housing.

HCD takes its role in promoting the effective use of redevelopment funds very seriously. In addition to reporting on the collection and use of housing funds, HCD annually audits several redevelopment agencies to help improve agency compliance with housing requirements. This information will also be used to develop technical assistance materials for redevelopment agencies. HCD will also continue to lead and participate in efforts to improve the housing fund reporting process.

We hope that you will find this report useful. HCD welcomes your input as we work to promote and ensure the effective implementation of State redevelopment law.

Sincerely,

Julie Bornstein
Director

Enclosure

California Redevelopment Agency Housing Activities During Fiscal Year 2000-2001

STATE OF CALIFORNIA
Gray Davis, Governor

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Maria Contreras-Sweet, Secretary

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May 2002

FOREWORD

This is the seventeenth year the State Department of Housing and Community Development (HCD) has reported on redevelopment agencies' housing activities. California Redevelopment Law (Health and Safety Code, Section 33080) requires agencies to annually submit data to HCD and further requires HCD to report on agencies' use of their Low and Moderate Income Housing Fund to increase, improve, and preserve the community's supply of affordable housing.

California's Affordable Housing Crisis

California's affordable housing crisis worsened over Fiscal Year 2000-2001. Statewide, housing prices, rents, and energy costs increased which burdened more households. Many persons representing government, business, and housing advocacy groups discussed whether California can continue to prosper as housing becomes less affordable to many more persons. Compared to the 1980's, the state's housing problems from the 1990's to the present have continued to worsen. Housing production continues to significantly trail demand, household overcrowding has increased (both number of households and degree of crowding), the cost of shelter is a severe burden to many, and more housing units have become substandard.

To address California's affordable housing crisis, the full participation of government and the private sector is needed. Redevelopment agencies are an important link between local government and private industry. Agencies' Low and Moderate Income Housing Fund (Low-Mod Fund) continue to represent the largest source of funds for affordable housing to help remedy California's affordable housing problem.

Statutory Reporting Requirements

California currently has 408 redevelopment agencies (refer to Appendix A) of which 381 are active. Inactive agencies (27) are ones that over the reporting year made no deposits and did not spend any funds. Some agencies may be "inactive" because of being newly formed; others have been inactive for several years.

Community Redevelopment Law is contained within Health and Safety Code (H&SC) Section 33000-34160. A copy is available on the California Senate Internet Site (http://www.sen.ca.gov/). H&SC Section 33080 requires agencies, within six months after the end of each fiscal year, to submit to the State Controller's Office (SCO) annual reports required by both the SCO and HCD. Agency reporting requirements are set forth in H&SC Sections 33080, 33444, and 33615.

Agencies must report Low-Mod fund deposits, revenues, expenditures, and balances to HCD. Regarding housing activities, agencies must report, by project area, specified data on households assisted such as the number of elderly and non-elderly and the income level of the household. After agencies submit their annual reports, HCD, pursuant to H&SC Section 33080.6, must compile and publish an annual report on redevelopment agency housing activities.

Data Reporting Problems

Overall, problems of accuracy, consistency, and timeliness appear to have decreased compared to the prior reporting year. However, HCD contacted many agencies to clarify and correct data included in this report. An example of inaccurate data is when some agencies report different amounts of total fund equity to HCD and to the State Controller. Inconsistent data occurs when agencies report amounts on HCD Schedule C (Items 4a(1) and 8b) for land holdings but do not identify sites being held for future construction (Item 14) to support financial claims. Two agencies (Irvine and Isleton) failed to submit timely reports.

Thorough and accurate agency reporting is critical because information is used to determine and analyze important trends regarding agencies' use of housing funds, households and persons benefiting from agencies' housing activities and assistance, and the overall effectiveness of California redevelopment law. Most agencies appear to make a sincere effort to fulfill their reporting responsibilities. However, some inaccuracies and inconsistencies arise due to agencies' differing interpretations of some provisions of redevelopment law and from agencies' differing methods of how they account for housing funds and expenditures and also how they report their housing activities. An example of a difference in interpretation of law that significantly impacts agencies' inclusionary obligations to produce a specified percentage of additional affordable units is disagreement over what invokes the agency developed 30 percent requirement versus the 15 percent requirement applicable to non-agency developed activities. An example of differing methods of accounting for housing expenditures can occur depending on whether planning and administration costs are separately reported or included among costs reported as project costs.

HCD Actions to Improve Agency Reporting

For the last two years, agencies have had the option of electronically reporting data in place of submitting several HCD forms. This year, more than 75 agencies filed their report electronically, whereas only a dozen agencies did so the year before. HCD instituted its redevelopment agency on-line reporting system to facilitate agency efforts to both accurately and timely report data. HCD made many improvements to its on-line reporting system in response to agency staff comments. To encourage more agencies to electronically submit their annual report, HCD will continue soliciting suggestions and make improvements to make agency reporting easier, faster, and more accurate.

Three years ago, HCD began auditing redevelopment agencies. The audits report on compliance issues and agency practices to enable agency management and public policy makers to identify options and strategies to improve agency effectiveness. Issues identified in audits are ones that are often discussed among persons interested in enacting changes in redevelopment law to improve agency practices. For example, audits have revealed some agencies not setting aside the required minimum amount of tax increment, inappropriately exempting tax increment from deposit into the housing fund, incorrectly calculating agency affordable housing production or inclusionary obligations, and incorrectly reporting Excess Surplus.

2001 Changes to Redevelopment Law

The Governor signed into law two major bills amending redevelopment law. Senate Bill 211 (Torlakson) and Assembly Bill 637 (Lowenthal) became effective January 1, 2002. Both bills reflect compromises reached among members of a legislative working group established in the Summer of 2000. The legislative working group consisted of persons representing Senator Torlakson, Assemblyman Lowenthal, California Redevelopment Association, Department of Housing and Community Development, affordable housing advocacy groups, nonprofit housing developers, and consultants to redevelopment agencies.

SB 211 provides additional time to agencies facing certain deadlines, beginning in 2004, that would impact redevelopment plans and agencies' ability to incur additional debt and continue to receive tax increment. AB 637 extended the January 1, 2002 sunset date to January 1, 2006 for the provisions made temporary by AB 1290 (Isenberg, 1993). These temporary provisions relate to agencies' responsibilities to replace affordable units that have been destroyed and also to ensure that a specified percentage of project area housing units are affordable.

Certain amendments in these bills affect all agencies whereas other changes take effect only when agencies implement specific provisions such as with SB 211. In general, the major changes impacting all agencies as a result of AB 637 and SB 211 are:

- the temporary Section 33413 provisions of AB 1290 applicable to meeting agencies' affordable housing inclusionary or production requirements were extended until 2006;
- non-agency assisted substantial rehabilitation of dwelling units no longer trigger the inclusionary provision requiring agencies to ensure a specified percentage of such units are affordable to low and moderate income households;
- affordability restrictions were lengthened to be at least 45 years for owner-occupied units and 55 years for rental units;
- housing funds shall not be used when other funding sources are available;
- housing funds, over the duration of the housing implementation plan, must be proportionately spent to assist very-low and low income households and families with children;
- affordable housing obligations must be met before the expiration of the project area redevelopment plan and also before agency dissolution; and
- the replacement requirement for units to be affordable to the same income category of displaced households changed from 75 to 100 percent.

The major changes affecting only agencies choosing to implement provisions of SB 211 regarding time limit extensions are:

- the agency's jurisdiction must have adopted a housing element that has been determined to comply with State law;
- an agency can not have been found to have committed a major violation of redevelopment law and must not have accumulated Excess Surplus;
- the Low-Mod Fund minimum set-aside percentage shall be increased from 20 to 30 percent;
- of the increased set-aside (30 percent), agencies can only defer above 20 percent; and
- spending is further targeted to limit assistance to moderate-income households to no more than 15 percent of deposits.

Several of the changes implemented by SB 211 and AB 637, effective January 1, 2002, will impact agency reporting in the future. For example, agencies taking advantage of the time limit extensions provided by SB 211 will have to deposit tax increment of 30 percent instead of 20 percent to the Low-Mod Fund. Also, agencies will have to report information regarding targeting their expenditures. These and other changes will necessitate future revisions to HCD's on-line reporting system and forms (Schedules A-E).

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Appendices

CALIFORNIA REDEVELOPMENT AGENCIES' HOUSING FUNDS AND ACTIVITIES

Fiscal Year 2000-2001

EXECUTIVE SUMMARY

The data compiled and reported by HCD on redevelopment agencies' housing funds, activities, and assistance provides comprehensive and objective data concerning redevelopment agencies' use of their Low and Moderate Income Housing Fund (Low-Mod fund). Agency reported data can be used to determine compliance with provisions of redevelopment law (Health and Safety Code, Section 33000, et.seq.), evaluate the effectiveness of agencies' use of Low-Mod funds, and assess whether agencies' many programs, projects, and types of assistance help to increase, improve, and preserve the community's supply of low and moderate-income housing. California has 408 redevelopment agencies of which 381 are considered active when agencies report funds were received and/or spent.

For Fiscal Year 2000-2001, agencies reported a 15 percent increase in deposits of $798 million to the Low-Mod fund and spent $695 million representing an increase of 16 percent more than last year. Agencies reported total fund equity of $1.9 billion. Agencies Low-Mod funds continue to comprise the largest single source of funds available for the development, improvement, and maintenance of affordable housing. As a result, agencies have a leadership role in responding to the need for more affordable housing to address California's worsening housing crisis.

Based on information agencies reported at the end of Fiscal Year 2000/2001, this report discusses certain trends regarding the amount and use of agency funds and the results of agency housing activities. Incomplete or inaccurate reporting continues to hinder efforts to evaluate agencies' compliance with redevelopment law and agencies' housing programs and projects. Concerns are discussed in detail at the front of various exhibits displaying specific financial and housing activity data.

Highlights of redevelopment agencies' FY 2000-2001 use of funds and accomplished housing activities and assistance are provided on the following page. Next, agency reported data contained in Exhibits A-M are summarized.

HIGHLIGHTS - HOUSING FUND

- *Agencies **deposited $798 million** to the housing fund, **an increase of $105 million** (15 percent) compared to the previous year.*
- *Agencies **spent $695 million** of housing funds, **$96 million** (16 percent) more than last year.*
- ***Total Fund Equity approximated $1.9 billion** at the end of Fiscal Year 2000-2001. Agencies **added $240 million** to their housing fund balance.*
- ***The statewide Unencumbered Balance reported at year end was $843 million** which represents the amount available for future housing activities. Of this unencumbered amount, agencies reported **$202 million as designated** for use in the near term, leaving **$641 million as undesignated** and immediately available for housing activities.*
- *Four agencies **exempted $11.7 million** of tax increment from deposit to their housing fund.*
- *Eleven agencies **deferred $3 million** of tax increment that must be repaid to the Low and Moderate Income Housing Fund. Fourteen agencies **repaid $3.8 million for deferrals** taken in previous years. The housing funds' accumulated **deferral balance represents $182 million**.*
- *Over **$4 million was reported as Excess Surplus** by 9 agencies compared to $85 million reported in FY1999-200 by 58 agencies, indicating agencies are expending or encumbering Excess Surplus in response to changes in law to address agencies' Excess Surplus. Excess Surplus funds must either be transferred to local housing authorities within one year or spent or encumbered within two additional years to avoid penalty.*

HIGHLIGHTS - HOUSING ACTIVITIES

- *Agencies **assisted 20,686 households.** Assistance to elderly households totaled 6,968 and non-elderly households totaled 13,718. Agencies used Low-Mod funds to assist the following households: **9,291 very-low (45%); 6,949 low (34%), and 3,286 moderate (16%).** Agencies used other funds to assist **1,160 above-moderate (5%) households**.*
- *Agencies reported **6,410 units had affordability restrictions to fulfill the "inclusionary" requirement:** 2,638 units were reported as new construction, 3,255 represent rehabilitations and 517 represent acquisition of long term affordability covenants on multi-family units.*
- *Low-Mod funds assisted in the **replacement of 1,512 units** that were counted toward agencies' obligations to replace units destroyed over the last four years.*
- *Agencies reported **other activities** (other than inclusionary or replacement activities) that **assisted in constructing 3,308 units; rehabilitating 3,751 units; subsidizing 1,517 households and providing several other kinds of assistance benefiting an additional 4,188 households.***
- *Twenty seven agencies reported **523 units were destroyed** in FY 2000-2001, and thirty five agencies reported **371 units need to be replaced**. Nine agencies displaced a total of 115 households in the current year and twenty eight agencies projected displacing 784 households next year.*

Redevelopment Agency Activities - Fiscal Year 2000/2001

Agencies' financial and housing activities are discussed in separate sections. The first section reports on funds specific to the Low and Moderate Income Housing Fund (Low-Mod Fund) based on data displayed in Exhibits A through D. The next section describes housing activities based on data contained in Exhibits E through M. Exhibit data reflects specific information reported by agencies and may not reflect data representative of every agency, project area, housing program, project, and/or activity. Agencies are required to annually report to HCD and can do so either electronically or by completing HCD Schedules A-E (refer to Appendix B for copies of reporting forms).

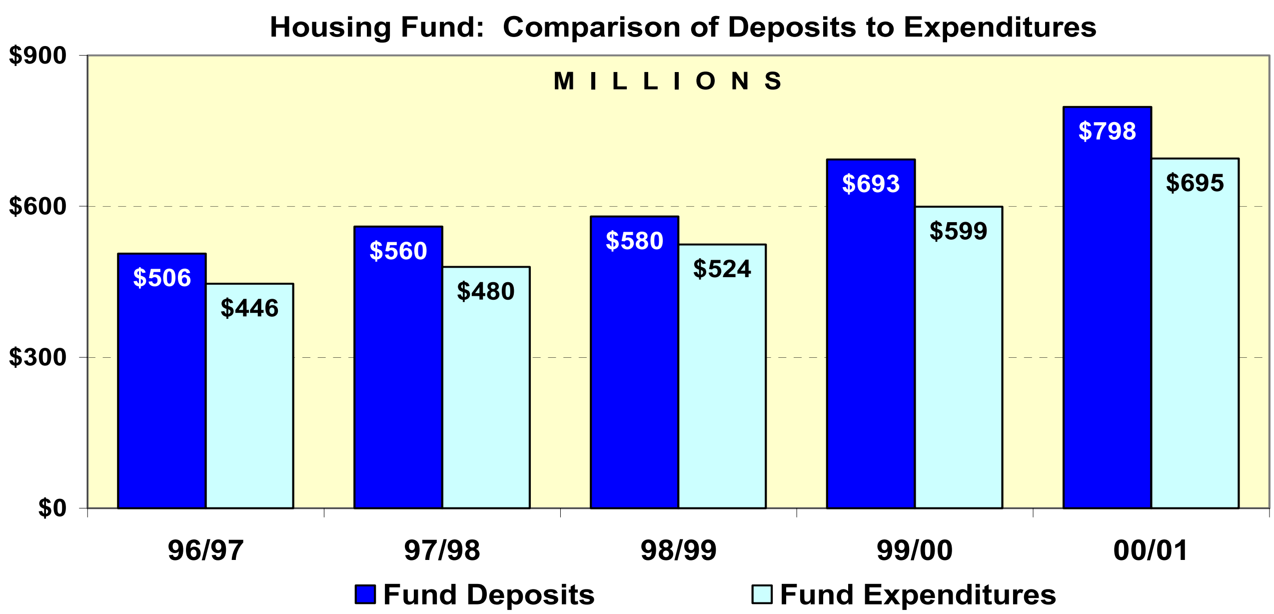
HOUSING FUNDS

This part reports on the statewide sources and uses of the Low-Mod Fund. Amounts specific to redevelopment project areas are reported in Exhibits A-1 and A-2. Low-Mod Fund data (total revenues, expenditures, assets, and fund balances, etc.) are reported in Exhibits C-1 through C-8. Within this summary, amounts reported have been rounded. Exhibits contain complete data.

Sources of Housing Funds (Exhibits A-1, A-2, and C-1)

For Fiscal Year 2000/2001, agencies deposited $798 million to the Low-Mod Fund (Exhibit C-1) which represents a 15 percent increase over the prior year. Deposits consisted of $700 million of project area receipts and $98 million of other Low-Mod Fund revenues such as from bond proceeds and transfer amounts. Sources of project area receipts ($700 million, Exhibit A-1) consists of $414 million in current year tax increment allocations, $4 million in repayments of tax increment deferred in past years, and $282 million of additional income (Exhibit A-2). Additional income includes $105 million of other income, $61 million of interest income, $55 million in debt proceeds, $38 million from loan repayments, $10 million from sales of real estate, $8 million from rents and leases, $4 million from grants, and $46 thousand received in fees for redevelopment agency administration of bonds.

As shown in the Chart below, over the last five years deposits have increased at a slightly higher rate than agencies' expenditures. This reporting year, deposits exceeded expenditures by $103 million.



Tax Increment Exemptions and Deferrals (Exhibits A-1, B-1, B-2, and C-2)

Exemptions

Exemptions refer to tax increment agencies are allowed to excuse from deposit to the Low-Mod Fund under specific conditions pursuant to H&SC Section 33334.2(a). Before taking an exemption, the jurisdiction must have an adopted housing element that HCD determined complies with State housing element law. Also, agencies must annually adopt a resolution making one of the following findings:

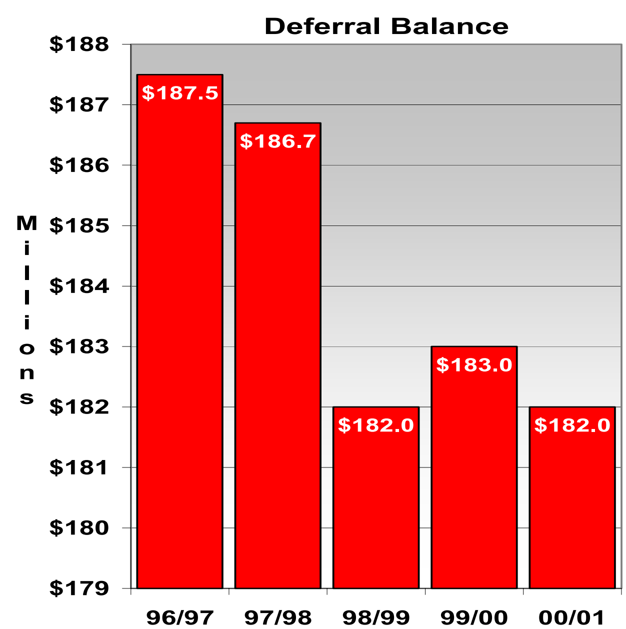
- Community has no need to increase, improve or preserve the supply of affordable housing
- Less than the required minimum set-aside (20%) is sufficient to meet the community's need
- Community is making a substantial effort to meet its affordable housing need that is equivalent in value to the set-aside amount (only applies if obligations were incurred before May 1991).

Exhibit B-1 identifies four agencies (Industry, Rosemead, Brea, and Needles) that exempted $11.7 million from deposit to their Low-Mod Fund. In the previous year, eight agencies, which include the same four above, exempted $11 million. The jurisdictions of all four agencies met the requirement to adopt a housing element that HCD determined to comply with State housing element law. All four agencies also reported making a required finding and adopting a resolution. An agency's resolution, unlike the jurisdiction's housing element, is not submitted to HCD for a determination of compliance.

Deferrals

Deferrals represent a portion of the minimum 20% set aside obligation that agencies defer from deposit to cover specific obligations. Deferrals of tax increment reported in Exhibit B-2 constitute a debt to the Low-Mod Fund and agencies are required to develop repayment plans. Deferrals are treated as future (long-term) receivables reported as Additional Assets (Exhibit C-2). The total amount of agencies' deferrals is $182 million which approximates 20% of total housing fund assets of $922 million.

During FY 2000-2001, 11 agencies deferred $3 million whereas 14 agencies repaid $3.8 million. Eight of these agencies were among the 10 in FY 1999-2000 that deferred $3 million. The below graph on the left delineates that while tax increment deferrals over the last three years have not changed much, the amount of deferrals did decrease compared to the two earlier years. The graph on the right shows a significant deferral balance is still owed to the Low-Mod Fund.

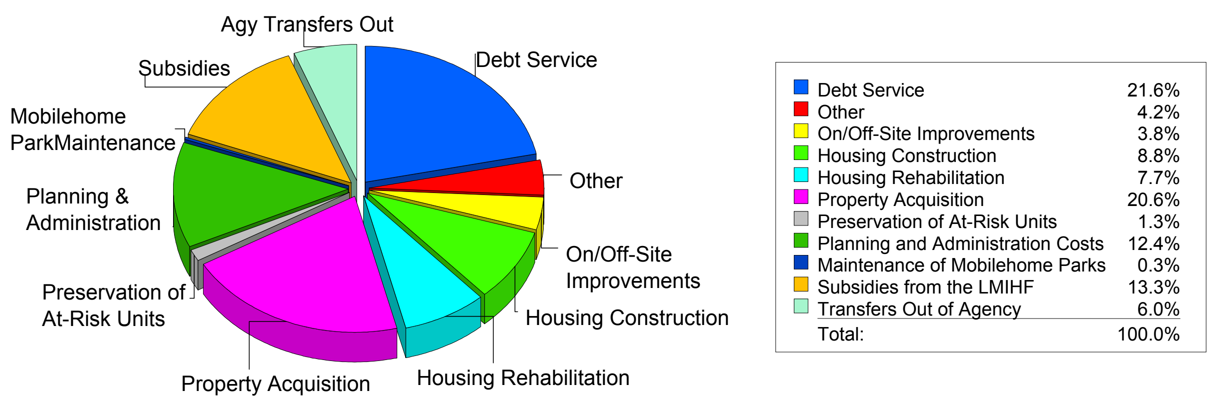


Uses of Housing Funds (Exhibits C-1 through C-8)

Agencies reported total expenditures of $695 million. Expenditures during FY 2000-2001 were 16 percent higher than the prior year. Although agency expenditures do not specify how much is spent to assist households of various income levels, some inferences can be made about agencies' use of housing funds based on housing assistance described in the Housing Activities section of this report. For example, agencies reported assisting a total of 20,686 households, 17,397 (84 percent) from the Low-Mod Fund. Non-elderly households comprised 66 percent of total households assisted. Descriptions of other households indicate that 45 percent were very-low income; 34 percent were low; 16 percent were moderate; and 5 percent were reported as above-moderate income that agencies assisted with funds other than Low-Mod funds.

Housing fund expenditures constitute eleven major categories. Debt service ($179 million, Exhibit C-5) represents the largest category (22%) based on deposits of bond proceeds. Property acquisition ($143 million, Exhibit C-3) approximates 21 percent. These two categories make up 46 percent of all expenditures whereas for the prior year it was 54 percent. The chart below depicts the percentage that each major category comprises of the $695 million of Low-Mod Fund expenditures. Some categories consist of several related expenditures that agencies report on HCD Form Schedule C (see Appendix B). For example, Property Acquisition includes nine items such as costs for relocation, site clearance, and disposal, etc.

Fiscal Year 2000/2001 Uses of Housing Funds

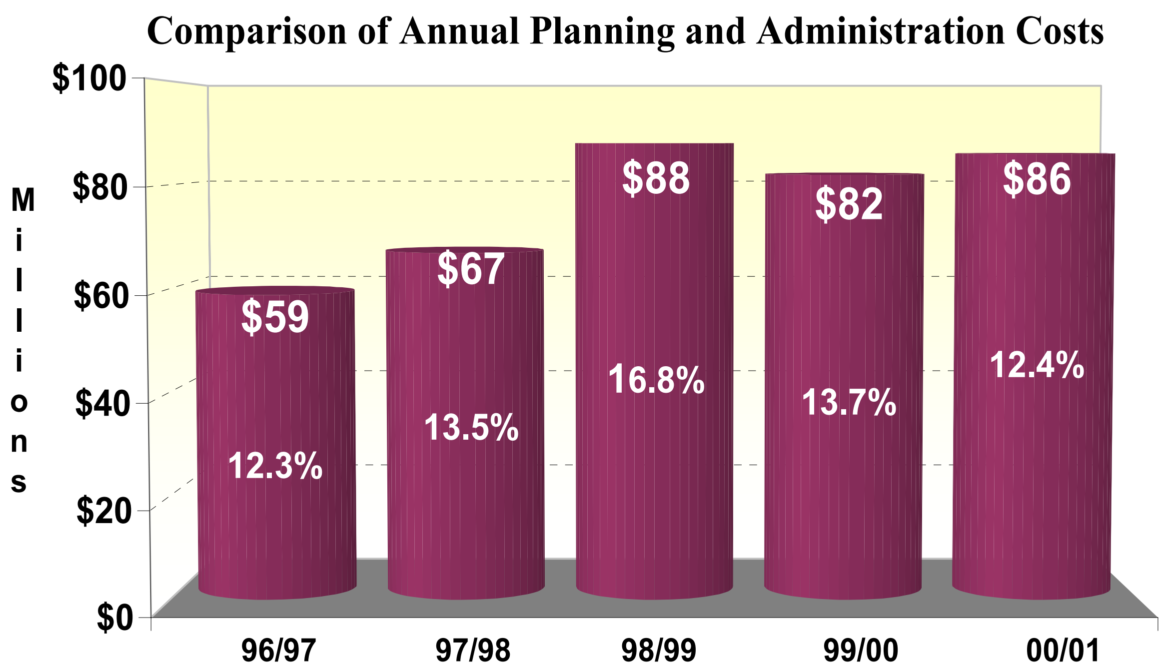


Debt Service	**150,509,760**
Other	**29,123,646**
On/Off-Site Improvements	**26,569,871**
Housing Construction	**61,004,881**
Housing Rehabilitation	**53,294,046**
Property Acquisition	**143,321,931**
Preservation of At-Risk Units	**9,019,666**
Planning and Administration Costs	**86,388,707**
Maintenance of Mobilehome Parks	**2,198,415**
Subsidies from the LMIHF	**92,396,768**
Transfers Out of Agency	**41,418,958**
Total Expenditures:	**695,246,649**

Planning and Administration Costs (Exhibits C-7 and C-8)

Agencies reported FY 2000-2001 planning and administration costs of $86 million, a little above the $82 million reported prior year. Planning and administration costs are approximately 12.4 percent of total expenditures, a percentage decrease of 1.3 percent compared to the prior reporting year.

Exhibit C-7 shows amounts agencies spent on such categories as administration; planning, survey, and design; and professional services. For FY 2000-2001, Exhibit C-8 shows that 31 agencies reported planning and administration costs comprising 100 percent of total expenditures, compared to 22 that reported doing so the previous year. Furthermore, this year 67 agencies reported spending above 50 percent, 18 more than last year. Planning and administration charges over the past five years, and the percentage relative to total expenditures, are presented below.



Percentage reflects comparison of costs to total expenses

Redevelopment law specifies that agencies' planning and administration charges should "not be disproportionate to the amount actually spent" on affordable housing. Agencies are required to make an annual determination that planning and administration charges are "necessary for the production, improvement, or preservation" of affordable housing. Based on several agency audits the department has conducted since 1998, several agencies did not make the appropriate required annual determination and finding that planning and administration charges were not disproportionate to the amount of Low-Mod funds that agencies spent on affordable housing projects over the reporting year.

Reasons for disproportionate planning and administration costs vary among agencies due to changes in revenue, staff, and more particularly, the number, size, and development timeframes of projects. The agencies identified in the table below are ones that reported planning and administration costs of more than 50 percent for the last four years (agencies are arrayed in alphabetical order and costs are rounded to thousands).

Planning and Administration Costs as a Share of Total Expenditures

AGENCY	FY 2000-01		FY 1999-00		FY 1998-99		FY 1997-98	
COVINA	$481,034	62%	$592,963	68%	$589,431	66%	$613,706	59%
HERCULES	$200,166	100%	$163,560	100%	$1,231,558	91%	$223,013	100%
MONTEREY PARK	$1,046,328	93%	$1,011,391	81%	$999,716	58%	$910,562	90%
PARLIER	$87,605	55%	$103,464	84%	$93,722	73%	$45,437	100%
RIO VISTA	$56,561	100%	$46,383	100%	$54,336	100%	$31,150	97%
SIMI VALLEY	$704,053	51%	$653,548	85%	$387,899	88%	$732,448	67%

Status of Housing Funds and Assets (Exhibits C-1 and C-2)

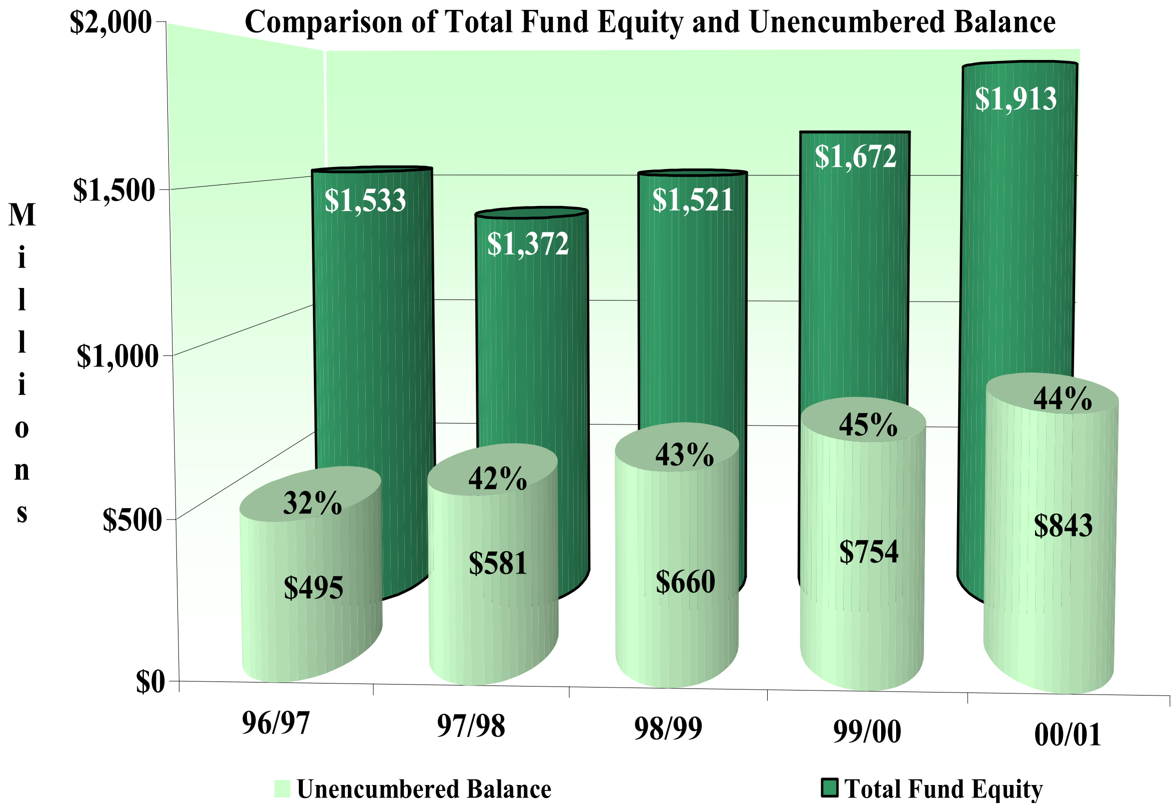
At the beginning of Fiscal Year 2000/2001, the Low-Mod Fund's statewide Adjusted Beginning Balance was $888 million, $88 million more than the year before. Agencies ended the fiscal year reporting $991 million as Net Resources Available, adding $103 million to the Beginning Balance. Net Resources Available is determined by adding the Adjusted Beginning Balance ($888 million) to Project Area Receipts ($700 million) and to Housing Fund Revenues ($98 million) and subtracting Total Expenses ($695 million).

Agencies reported Total Fund Equity at $1.9 billion, approximately $241 million more than the prior year. Total Fund Equity represents the sum of Net Resources Available ($991 million) and Housing Fund Assets ($992 million). Housing Fund Assets (Exhibit C-2) consist of $513 million in receivable loans (the three kinds are Housing Loans, Residual Receipt Loans, and ERAF), $183 million in land holdings, $182 million in accrued deferrals of tax increment, and $44 million in other assets. These housing fund assets are considered to be long-term receivables unable to be made immediately available to assist with housing activities.

Funds Available for Future Housing Activities (Exhibit C-1)

Of the $991 million agencies reported as Net Resources Available, $147 million was reported as Encumbrances which are funds that agencies have committed to cover executed agreements and contracts. This leaves $843 million as the Unencumbered Balance. From this amount, agencies then report unencumbered funds tentatively designated for specific purposes and the undesignated amount that agencies have not yet planned or budgeted for expenditure. Agencies reported designating $203 million for specific activities in the near term. The approximate $640 million remaining represents funds both unencumbered and undesignated that are considered to be immediately available to spend on housing activities.

The chart below shows that unencumbered dollars have steadily increased in relation to total fund equity over the past five years. One reason may be the necessity for agencies to save funds over multiple years for large or difficult projects. Another reason why redevelopment agencies' unencumbered balances may vary and appear high could be due to unspent debt proceeds recently deposited.



This reporting year, 180 redevelopment agencies reported an unencumbered balance over $1 million, whereas 159 agencies did so the year before. Of the 180 agencies identified this year, 131 reported an unencumbered balance between $1 and $5 million; 30 reported between $5 and $10 million, and 19 ended the year with an unencumbered balance more than $10 million. The sum of these 19 agencies' unencumbered balance is approximately $328 million, or 39 percent of the statewide Unencumbered Balance of $843 million.

The table on the next page identifies the 19 agencies that ended the reporting year with an Unencumbered Balance over $10 million and their unencumbered balances for the two previous years. Also shown is the percent of total revenue that each agency spent. This data demonstrates that agencies can both spend a high percentage of total annual revenue and still end the year reporting a high Unencumbered Balance. This can occur from agencies carrying over a prior year's balance that may include a large amount of unspent debt proceeds. The percentages in the table below compare total expenditures against total annual revenues. For all three years, only Carson and Inglewood stand out from the others as having both spent less than 50 percent of annual revenue and maintaining an Unencumbered Balance above $10 million over all three years.

	AGENCY	FY 2000-2001 Unencumbered Balance (millions)	FY 2000-2001 Percent of Revenues Spent	FY 1999-2000 Unencumbered Balance (millions)	FY 1999-2000 Percent of Revenues Spent	FY 1998-1999 Unencumbered Balance (millions)	FY 1998-1999 Percent of Revenues Spent
1	ANAHEIM	$15.8	72%	$0.9	* 143%	$5.2	82%
2	BURBANK	$14.5	52%	$13.3	* 102%	$11.2	89%
3	CARSON	$16.5	48%	$14.7	26%	$10.4	12%
4	FREMONT	$10.4	40%	$7.3	70%	$5.9	49%
5	INGLEWOOD	$21.0	16%	$18.2	26%	$12.9	16%
6	IRWINDALE	$26.8	53%	$24.9	44%	$23.1	43%
7	LA QUINTA	$12.9	* 111%	$8.6	* 103%	$2.3	* 128%
8	LOS ANGELES CITY	$10.9	57%	$14.6	90%	$8.1	100%
9	OAKLAND	$38.0	* 148%	$46.7	10%	$0.0	96%
10	ONTARIO	$10.5	56%	$7.7	* 122%	$9.0	* 154%
11	ORANGE COUNTY	$10.6	52%	$8.8	62%	$7.6	67%
12	SAN FRANCISCO	$14.6	* 106%	$20.8	59%	$0.0	91%
13	SACRAMENTO CITY	$20.6	* 119%	$21.0	99%	$13.3	51%
14	SAN DIEGO CITY	$16.8	61%	$11.1	65%	$19.3	95%
15	SAN MARCOS	$10.7	62%	$7.6	98%	$7.5	* 188%
16	SANTA ANA	$17.1	63%	$14.1	45%	$7.6	78%
17	SANTA CLARA CITY	$19.6	78%	$13.9	83%	$9.1	56%
18	SANTA CRUZ COUNTY	$20.2	28%	$10.9	* 171%	$13.6	61%
19	YORBA LINDA	$20.2	4%	$2.7	27%	$5.3	93%

* *A percentage greater than 100 percent shows the agency spent more than the year's total revenues by also spending a portion of the Low-Mod Fund balance accrued over previous years.*

Excess Surplus (Exhibit D)

Exhibit D identifies 9 agencies that ended the reporting year with Excess Surplus that approximates $4 million. Excess Surplus is defined as the amount of unencumbered balance that exceeds the greater of: (1) $1 million dollars or (2) the combined amount of tax increment revenue deposited to the Low-Mod Fund during the preceding four fiscal years. Agencies are permitted to adjust their unencumbered balance to exclude from the calculation one or both of the following: (1) the amount of any unspent debt proceeds and (2) any difference between the sales price of land sold and its fair market value.

Since July 1994, redevelopment agencies have been required to determine the existence of Excess Surplus on the first day of each fiscal year and annually report this information. The law (Section 33334.12) specifies administrative and financial penalties that apply, if agencies do not eliminate Excess Surplus funds within prescribed time periods. To avoid penalties, agencies must either: (1) transfer the total amount of Excess Surplus to the local housing authority within one year or (2) spend or encumber the remaining Excess Surplus within two additional years.

In 1997, at the Legislature's request, the Bureau of State Audits reviewed whether agencies were correctly calculating Excess Surplus and found many inaccuracies. Most errors resulted from agencies failing to make allowable adjustments to their unencumbered balance for unspent debt proceeds and to account for value differences between the purchase and sale of land.

To improve the accuracy of determining Excess Surplus, redevelopment law was amended in 1999 (Assembly Bill 634, Wildman) to require an agency's independent auditor to calculate and report Excess Surplus as part of the agency's annual audit. The annual audit report is required to be provided to both the State Controller and HCD. To date, no agencies have been reported as having Excess Surplus beyond the three (3) year time period in which penalties would apply.

Legislation passed in 2001 (Senate Bill 211, Torlakson) contained a new provision relating to Excess Surplus. SB 211 was authored to grant an extension of up to 10 years to agencies with pre-1994 project areas that were facing expiration of time limits beginning in 2004 related to incurring project area debt and receiving future tax increment. SB 211 specifies that before an agency can amend pre-1994 project area plans and extend the time limit to incur debt, an agency must submit information to enable HCD to make a written determination that the agency has not accumulated Excess Surplus.

HOUSING ACTIVITIES

This section reports the results of agencies' use of funds (Low-Mod and other) for housing activities. Agencies reported assisting a total of 20,686 households, an increase of 35 percent over the 15,321 households assisted the previous year.

Exhibits E through M display housing assistance data in a variety of ways such as by county, agency, project area, and program and/or housing project, based on agency responses to HCD's reporting forms (Schedules A-E in Appendix B). Housing activities that directly assisted eligible households, such as the number of rent subsidies or the number of units constructed or rehabilitated, etc. are reported in Exhibits E through F. Exhibit G identifies the increased inclusionary obligations for future additional affordable units within project areas. These obligations are based on the number of newly constructed units and/or substantially rehabilitated units that were developed in project areas over the reporting year. Exhibits H and I report data on households displaced and dwelling units destroyed or removed. Exhibits J through M report "Other Housing Activities" that have an indirect or future impact on agencies' housing assistance efforts such as expenditures made for onsite and offsite improvements, housing estimated to occur over the next two years, land holdings, and use of agency funds for a homeownership bond program to match certain federal funds.

Types of Households Assisted (Exhibits E through F)

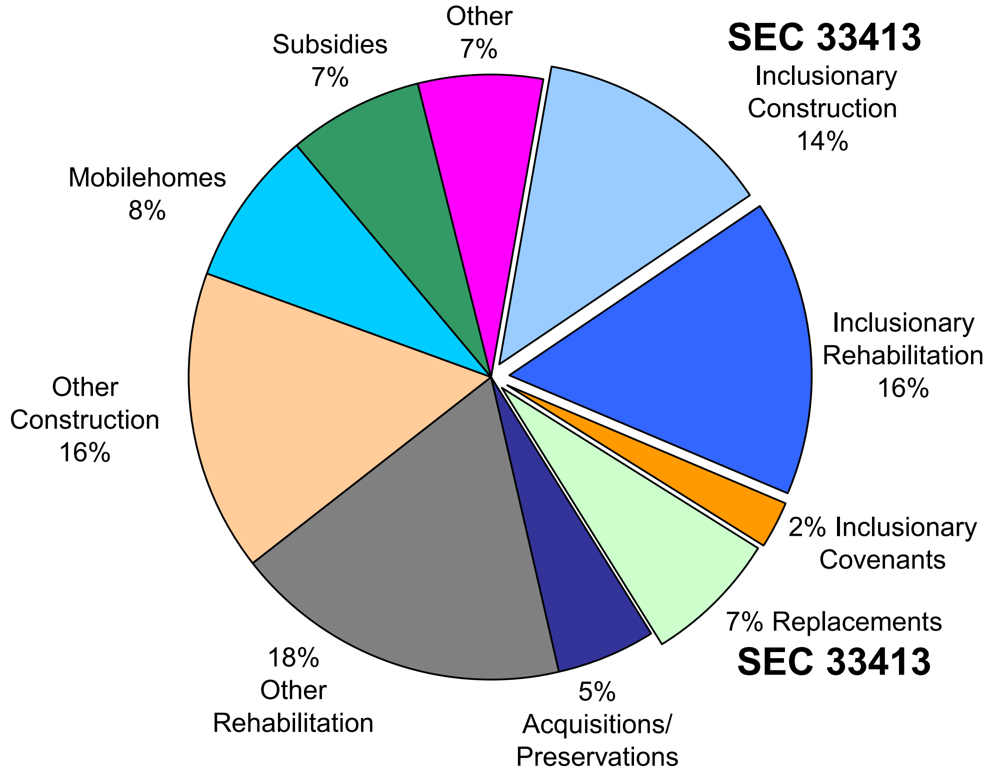
Redevelopment law restricts agencies' use of the Low-Mod Fund to "increasing, improving, and preserving" the community's supply of low-and moderate-income housing. Pursuant to Section 33080.4, agencies are required to annually report specified information to HCD such as: (1) the number of elderly and non-elderly households assisted, (2) the number of very-low, low-and moderate-income households assisted with Low-Mod funds, and (3) the number of above-moderate income households assisted with agencies' other (non Low-Mod) funds. The above information is shown at Exhibits E through Exhibit F.

Exhibit F-1 shows redevelopment agencies reported assisting 6,968 elderly and 13,718 non-elderly households. By income level, agencies provided housing assistance to the following households: very-low, 9,291 (45%); low, 6,949 (34%); moderate, 3,286 (16%); and, with agencies' other funds, 1,160 (5%) above-moderate.

Kinds of Housing Activities (Exhibits E through F)

Housing assistance activities vary from agency to agency to address the different needs within communities and project areas. Agencies report statutorily required information on HCD forms (HCD Schedules A-E at Appendix B). Information reported on housing assistance activities ranges from developing more affordable units to subsidizing housing costs and/or providing grants for repairs, etc. The chart below shows all reported housing assistance activities for Fiscal Year 2000-2001.

Housing Assistance Categories



Certain housing activities trigger the replacement and inclusionary requirements of Health and Safety Code Section 33413. This section of law requires agencies to ensure, within a specified timeframe, that additional units are affordable to eligible households either because affordable units were destroyed or additional units were constructed or substantially rehabilitated within project areas. Before 1994, when Assembly Bill 1290 (Isenberg) took effect, the types of housing meeting the replacement requirements of Section 33413(a) and the inclusionary requirements of Section 33413(b) consisted of Construction and Rehabilitation. Since 1994, inclusionary requirements are met by the following housing activities: Construction, Substantial Rehabilitation, and Acquisition of Covenants.

Number of Households Assisted by Activity (Exhibits E through F)

Statewide, agencies assisted 20,686 households this reporting year versus 15,321 last reporting year. The table below reports the number of households assisted by housing activity. Activities are categorized according to whether assistance met the replacement and/or inclusionary requirements of Section 33413 or whether the activity represents other housing assistance. Also reflected is whether assistance was provided with Low-Mod or other agency funds.

FY 2000/2001 TOTAL HOUSING ACTIVITIES AND HOUSEHOLDS ASSISTED

Section 33413 Requirement	Activity: Low-Mod Fund LMIHF	Activity: Other Funds	Total Section 33413	Other Housing Assistance	Activity: Low-Mod Fund LMIHF	Activity: Other Funds	Total Other Housing	TOTAL HOUSEHOLDS (ALL FUNDS)
INCLUSIONARY	**6,410**		**6,410**	Other	1,308	45	**1,353**	
Construction	2,638		2,638	Other Construction	1652	1656	**3,308**	
Subst Rehab >93	2717		2717	Other Subst Rehab	579	395	**974**	
Rehab <94	538		538	Other Rehab	2,425	352	**2,777**	
Acquire Covenant	517		517	Acquires/Preserves *	615	491	**1,106**	
REPLACEMENT	**1,512**		**1,512**	Mblhome & Parks *	1,450	279	**1,729**	
				Subsidy	1,446	71	**1,517**	
Total	**7,922**		**7,922**	**Total**	**9475**	**3289**	**12,764**	**20,686**

** Note: Activities combined: Acquisitions total 792 (492 LMIHF$, 300 Other$) and Preservations total 314 (123 LMIHF$, 191 Other$). Mobilehome Owners total 595 (383 LMIHF$, 212 Other$) and Park Owner Residents total 1,134 (1,067 LMIHF$, 67 Other$)*

Refer to Exhibits E-1 through E-14 for detailed information identifying (by county, agency, and project area) what kind of housing assistance was provided to households based on level of income. Exhibits F-1 through F-4 summarizes Exhibit E data in different ways. For example, Exhibit F-1 summarizes which agencies engaged in various activities and identifies the number of households assisted, by income category, according to activity, county of residence, and whether assistance was provided to an elderly or non-elderly household. Exhibit F-2 categorizes housing activities by area (inside or outside of project areas), and whether activity was deemed agency or non-agency assisted. Activities in Exhibit F-3 reflect those that agencies reported as other assistance or that met a Section 33413 requirement (affordable units that agencies had to replace or produce to remain affordable, generally 30 years and over the duration of the project area). Exhibit F-4 sorts activities based on whether agencies used the Low-Mod Fund or other funds.

<u>Section 33413 Inclusionary Activities</u> (Exhibits E 1-4, F 1-4, and G)

Inclusionary activities refer to housing units with affordability restrictions that agencies control and report as meeting the requirements of Health and Safety Code Section 33413(b), which is commonly referred to as either the inclusionary or production requirement. This section applies to housing that is constructed or substantially rehabilitated within project areas. Agencies are required, within ten years, to ensure (meaning include or produce) additional units as affordable to low and moderate-income households and to further ensure such units remain affordable over the duration of the project area and for the longest feasible time, generally at least 30 years.

For project area dwelling units that <u>agencies</u> develop, the inclusionary percentage is 30 percent of which at least half must be affordable to very-low income households. For project area dwelling units produced by <u>public or private entities or persons</u> (deemed non-agency developed), the inclusionary percentage is 15 percent of which at least 40 percent must be affordable to very-low income households. Housing activities that agencies can use towards fulfilling their inclusionary obligation, providing other specified requirements are met, include constructing new units, rehabilitating existing units, and acquiring long term affordability covenants on multi-family units.

Prior to 1994, any kind of rehabilitation activity within project areas increased agencies' inclusionary obligation to provide more affordable units within 10 years until Assembly Bill 1290 (Isenberg, Statutes of 1993) amended the law to specify that rehabilitation must be substantial. Substantial is defined as an increase in the after rehabilitation value, including the value of land, of at least 25 percent. The "2-for-1" inclusionary provision was also introduced by AB 1290. This provision allows agencies to meet their "inside project area" inclusionary housing obligation by producing two affordable units "outside" the project area for every inclusionary unit required "inside" the project area.

New Construction (Exhibit E-1)

Although agencies reported a statewide total of 6,549 new units constructed in project areas (above the prior year's 5,082), only 2,638 (40 percent compared to 44 percent for the prior year) were reported as having long-term affordability restrictions to meet the inclusionary provision of Section 33413. Most current year inclusionary new construction was reported as non-agency developed (1,476) versus agency developed (1,162). All inclusionary new construction was reported as assisted with Low-Mod funds. Inclusionary new construction benefited the following households: 1,211 very-low (46 percent), 1,057 low (40 percent), and 370 moderate (14 percent). Most of this construction was outside of project areas (1,567) rather than inside of project areas (1,071).

Rehabilitation—Pre-1994 (Exhibit E-2)

Agencies reported 538 units as having been rehabilitated, short of the 555 reported last year. Agencies used Low-Mod funds to assist 158 very-low and 380 low income households. Most (402) rehabilitated units were reported as non-agency developed with most (487) being inside rather than outside of project areas .

Substantial Rehabilitation—Post-1993 (Exhibit E-3)

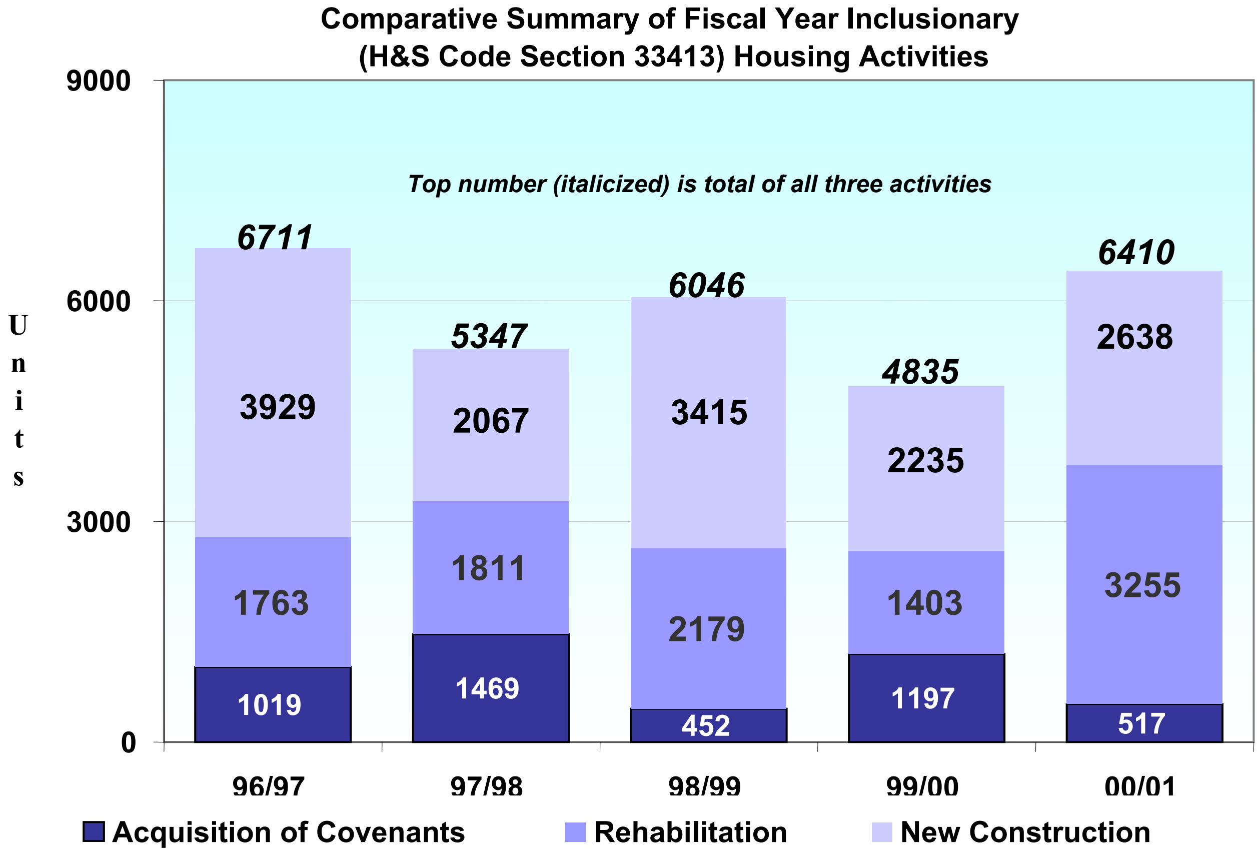
Substantial rehabilitation significantly increased as agencies reported using Low-Mod funds to assist 2,717 households versus 848 in the prior year. By income category, assisted households included: 959 very-low, 1,280 low, and 478 moderate. Agency developed units were reported as 1,647 and non-agency developed units were 1,070. The majority (1,973 or 73%) of assistance was provided outside of project areas.

Acquisition of Affordability Covenants (Exhibit E-4)

To meet up to 50 percent of their inclusionary obligation, agencies can purchase covenants on multi-family units restricting rents to affordable levels for units that are not currently affordable or not expected to remain affordable. During FY 2000-2001, agencies assisted 517 households, nearly half of the 1,197 reported last year. Households, by income level, represented: 216 very-low, 107 low, and 194 moderate income. Covenants purchased within project areas benefited 303 households whereas 214 were assisted outside of project areas.

Summary of All Inclusionary Housing Activities (Exhibit F 1–4)

The chart below profiles five years of inclusionary housing activities. It reflects housing units assisted with Low-Mod funds that have long term affordability restrictions (generally more than 30 years) meeting inclusionary requirements. Data fluctuations over the years may reflect the moving time periods (10 years) in which agencies are required to fulfill the obligation incurred over a particular year.



Increase in Inclusionary Obligation (Exhibit G)

For FY 2000-2001, Exhibit G reports agencies increased their inclusionary obligation and must ensure, within the next ten years, that an additional 1,266 units will remain affordable beyond 30 years. Agencies increased inclusionary obligation resulted from new construction (6,624) and substantial rehabilitation (1,118) completed within project areas. Inclusionary obligations incurred this year were above last year's (1,395).

Agencies' increased inclusionary obligation is relatively small because most project area activity was reported as non-agency developed, which triggers the 15 percent requirement instead of the 30 percent requirement, because redevelopment law does not define the term "agency developed." HCD interprets the law as requiring agencies to report activities as "agency developed" when Low-Mod funds are used because without such funds the project would likely not have been initiated.

<u>Section 33413 Replacement Housing Activities</u> (Exhibits F 1-4)

Exhibit F-3 shows agencies reported 1,512 units toward meeting their replacement Section 33413(a) obligations from having previously destroyed affordable units. In the prior year, 1,647 replacements were reported. Replacement obligations are required to be met within four years of removing dwelling units from the housing stock. Agencies reported meeting part of their replacement requirements from new construction (603), substantial rehabilitation (440), and rehabilitation (469) activities. Agencies developed 796 units whereas non-agency entities developed 716 of all replacement units.

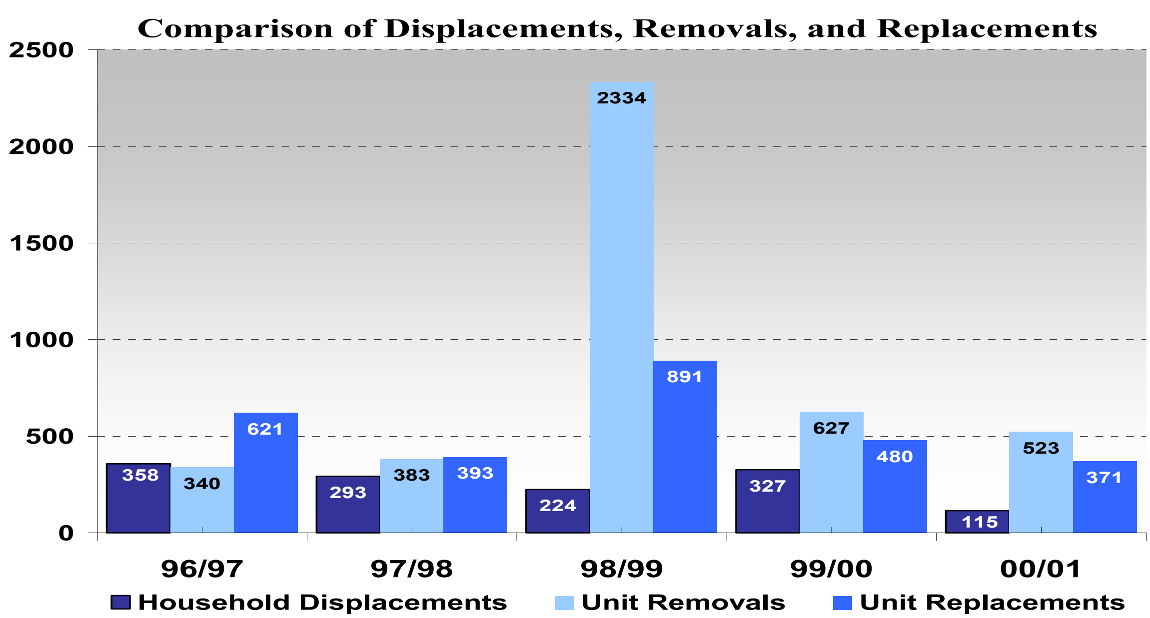
Based on the requirement that agencies must ensure at least 75 percent of replacement units are available to households of the same income level that were displaced, agencies reported replacement units were affordable to 641 very-low, 680 low, and 191 moderate income households. Agencies replaced 680 dwelling units inside of project areas and 832 housing units outside of project areas.

<u>Housing Units Removed and Households Displaced</u> (Exhibits H through I)

Section 33413(a) specifies an agency may replace destroyed or removed dwelling units with a fewer number of replacement dwelling units providing the number of bedrooms among all replacement dwelling units equal or exceed the total number of bedrooms of all destroyed or removed units. Exhibit H-1 reports 523 units were removed and Exhibit H-2 shows agencies should replace, within four years, 371 units and ensure that replacement units provide at least 695 bedrooms. Units destroyed included 35 occupied by elderly households and 488 occupied by non-elderly households.

As to households displaced over the reporting year (Exhibit I-1), agencies reported seven as elderly and 108 as non-elderly households. Exhibit I-2 provides agency displacement estimates for the next reporting year indicating agencies anticipate displacing 784 households (56 elderly and 728 non-elderly). Prior to displacing households, agencies are required to develop relocation and replacement housing plans.

The chart below shows statewide displacement, removal, and replacement activity over the last five years. The large spike (FY 98/99) resulted from one agency reporting data on a closed Air Force Base.



<u>Other Housing Assistance Activities</u> (Exhibits E, F, and J through M)

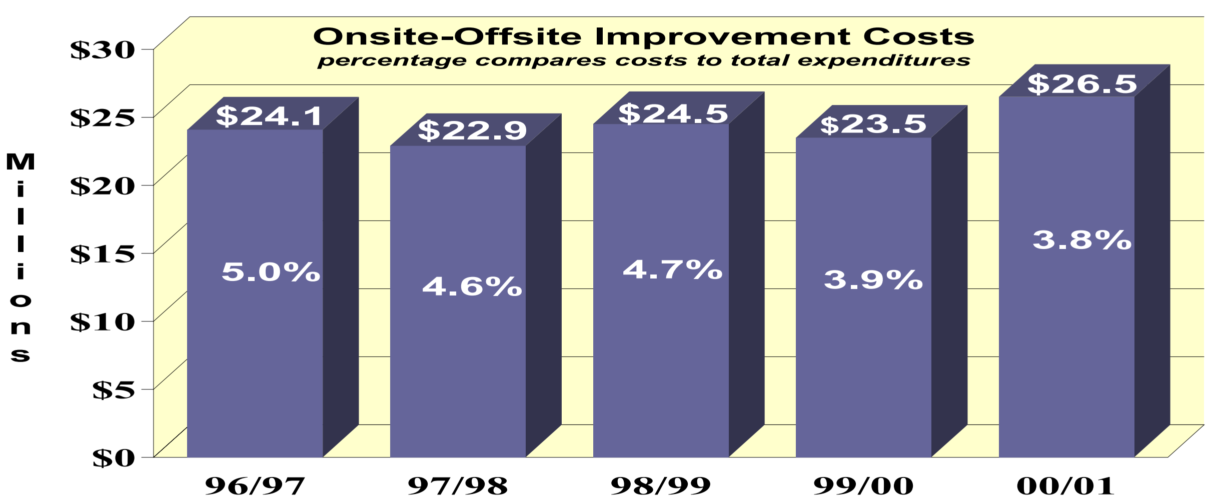
Other assistance includes activities funded with Low-Mod funds or other funds such as federal and state grants and the 80 percent of tax increment not required to be set-aside for affordable housing purposes. Since agencies can use other funds to assist households above the moderate income level, some activities reported in Exhibits E through F identify above-moderate income households. The new construction and substantial rehabilitation reported as "other" activities represent units agencies did not claim for inclusionary credit, most likely because such units lacked adequate affordability restrictions.

Agencies reported providing various "other" (non-inclusionary or non-replacement) assistance to 12,764 households. Most (9,475) were assisted with Low-Mod funds and the remaining (3,289) with agencies' other funds. Included in the count were 1,160 households reported as above-moderate (Exhibit F-4.) Agencies' other (non-inclusionary) activities and the number of households that benefited from agencies' financial assistance were reported as: new construction (3,308); substantial rehabilitation (974); rehabilitation (2,777); dwelling unit acquisitions (792); preservation of affordable units including subsidized units at risk of conversion to market-rate rents (314); mobilehome owners (595) and mobilehome park owner residents (1,134); providing monthly payment subsidies (1,517); and miscellaneous other (1,353) such as providing small grants to assist households with minor repairs.

<u>Onsite and Offsite Improvements</u> (Exhibit J)

Redevelopment law provides that when site improvements directly benefit affordable housing projects, agencies can use the Low-Mod Fund for both onsite and offsite improvements. Improvements must be part of a program to benefit affordable housing units or be determined by the agency as necessary to eliminate a condition jeopardizing the health or safety of persons occupying affordable housing units. An example of spending Low-Mod funds to remedy a health or safety issue would be the removal of contaminated soil near an affordable housing project.

Over the last five years, expenditures for site improvements have approximated 4 to 5 percent of agencies' total expenditures. This year, agencies reported (Exhibit C-6) spending $26.5 million ($3 million more than last year) for improvements benefiting affordable projects housing 6,174 families which is 486 households more than the total reported over the prior year. Improvements were reported as benefiting 421 new units, less than last year (660), and 679 rehabilitated units, significantly less than the number (2,355) reported for FY 1999-2000 and were cited as necessary to eliminate a health or safety hazard applicable to 5,074 units, significantly more than the prior year (2,673).



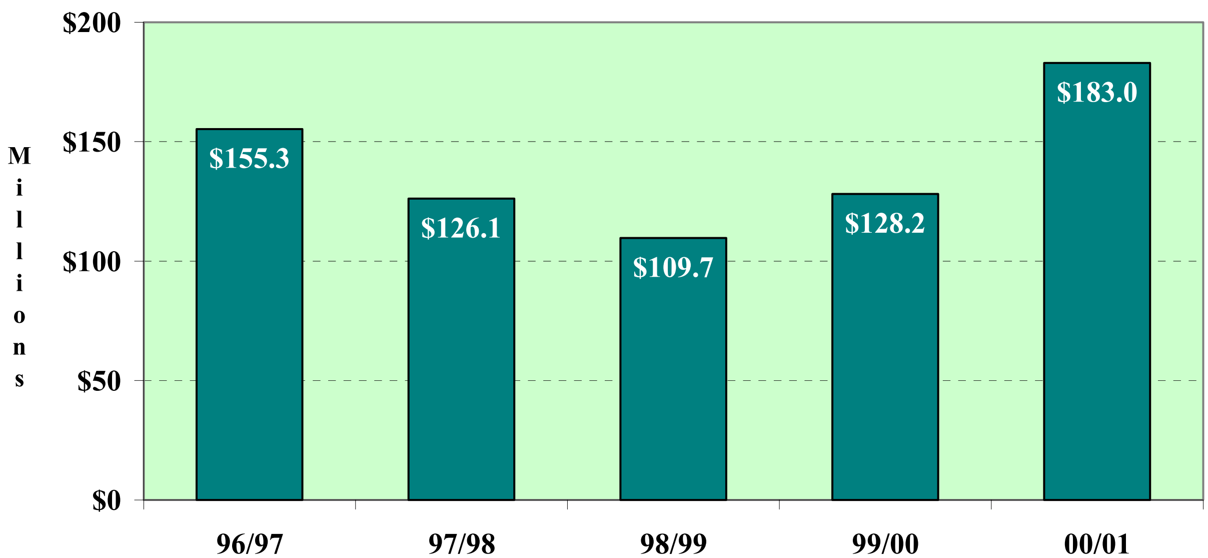
Future Construction (Exhibit K 1-3)

Exhibit K1 identifies agency estimates of affordable units anticipated to be completed over the next two fiscal years based on executed development agreements and contracts. The financial obligations attached to these contracts are reflected as part of encumbered dollars. A total of 18,265 units are estimated to be developed to accommodate: 9,312 very-low income households, 6,202 low-income households, and 2,751 moderate-income households. Agencies expect most construction over the next two years to occur inside project areas (10,333) as opposed to outside of project areas (7,932). Last year, agencies projected less total activity (15,591), with most estimated to take place inside of project areas instead of outside of project areas.

Land Holdings (Exhibit L)

Exhibit L contains information reported by 100 agencies regarding specific sites, acreage, zoning, dates of acquisition, and estimated dates that affordable housing projects may begin. Land being held for future affordable housing projects total 289 sites approximating 894.4 acres (last year, 295 sites encompassed 1,399 acres). Agencies also report values of land holdings as an additional asset (refer to Exhibit C-2). The values of land holdings over the last five years are shown below.

Value of Land Holdings for Future Housing Activity



Redevelopment law, Health and Safety Code Section 33334.16, requires agencies to initiate development activities within five years of land acquisition; however, agencies are permitted one five-year extension. Land not developed within the required time period must be sold and agencies must deposit the proceeds to the Low-Mod Fund. In 1999, Senate Bill 497 (Rainey) amended the law to require agencies' independent auditors to determine agency compliance. Auditor findings are required to be provided to the State Controller who is required to report major violations such as agency failure to develop or dispose of land to the Attorney General for action.

Miscellaneous Plans and Information (Exhibit M)

Certain requirements apply, if an agency uses non-Low-Mod funds to participate in funding projects that also receive federal funding pursuant to either Title II or IV of the Cranston-Gonzolez National Affordable Housing Act, and/or provide assistance to mortgagors whose incomes exceed that of persons and families of low or moderate income. The agency shall, within two years, expend twice that sum exclusively to increase and improve the supply of affordable housing to lower income households and at least 50 percent shall benefit very low income households. Contributions of funds, (other than Low-Mod funds) in support of the federal HOME program, approximated $565,000. Five agencies reported using their other (non Low-Mod) funds as matching funds in support of a federal affordable housing grant program.